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¶1. (U) Summary. This is Volume 8, issue 22 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:
- Economic Growth Slows
- Large Rate Hike Looms as Inflation Hits 10.4%
- 2000 Foreign Math and Science Teachers Head for SA
- SAA Reaches Salary Agreement with Pilots
- PetroSA Mulls Challenge to Transnet Pipeline
- Power Tariff Smoothing Prevailing
- Xenophobia Affects Mine Production
- Union Calls for Nationalization of Mines
- Indian Company Considers MTN Merger
- ICASA Rejects Bid to Force Pay-TV Providers to Pay for Public Broadcaster's Content
- Cape Town Builds Five-Star "Dry" Hotel
- Xenophobia Impacts Provincial Tourism
End Summary.

Economic Growth Slows

¶2. (U) Statistics South Africa (StatsSA) reported that growth in gross domestic product (GDP) slowed from 5.3% in the fourth quarter of 2007 to 2.1% in the first quarter of 2008, below forecasts of 2.4%. Mining output, which makes up 5.4% of GDP, decreased 22.1% compared with the final quarter of 2007, its sharpest fall in four decades. Manufacturing output, which accounts for more than 16% of GDP, dipped 1%. The electricity, gas and water sector contracted 6.2% in the first quarter, reflecting the inability of power utility Eskom to meet rising demand. The rising cost of credit knocked growth in financial services, the economy's biggest sector, down from 8.5% in the fourth quarter of 2007 to 4.9% in the first quarter of 2008. The star performer of the economy was the construction sector, which rocketed 14.9% in the first quarter, reflecting the launch of a large official infrastructure spending program over the next few years. Agriculture increased 12.5% from the previous quarter, in response to higher crop harvests, spurred partly by the continuing surge in food prices. Economists attributed the slowdown in economic growth primarily to the power outages that led to a sharp contraction in mining output and curbed activity in the key manufacturing sector, as well as the rising cost of credit which affected growth in financial services. However, analysts felt that it is unlikely that the disappointing GDP growth figures would convince the South African Reserve Bank (SARB) not to increase

interest rates at its policy meeting next month, because of soaring inflation. Chamber of Mines Chief Economist Roger Baxter warned that growth prospects for mining and other major industries were likely to remain "constrained" by power limitations during the rest of the year. "This is worrying as mining accounted for more than half of SA's exports", he said. Economists predict that growth will slow to between 3.0% and 4.0% this year, from an average pace of 5% over each of the past four years. (Business Day, May 28, 2008)

Large Rate Hike Looms as Inflation Hits 10.4%

¶3. (U) South African Reserve Bank (SARB) Governor Tito Mboweni warned that interest rates may rise by up to two percentage points at the SARB's policy meeting next month, after news that inflation Qat the SARB's policy meeting next month, after news that inflation had accelerated to a new five-year peak in April 2008. Statistics South Africa (StatsSA) data showed that the annual rise in the CPIX inflation increased from 10.1% in March to 10.4% in April, the 13th month in a row that CPIX has breached the 3%-6% official target range. "I'm speechless," said Brait Economist Colen Garrow after the CPIX data was released. "We've got a classic case of stagflation ... rising inflation, lower growth and high unemployment." Government bonds slid and banking shares fell 1.9% as markets reacted to fears that interest rates will rise more sharply than expected this year, as electricity tariff hikes and wage rises add to upward pressure on prices. "You don't have to be a genius to tell that interest rates have to tighten ... with CPIX at 10.4%, drastic measures are required," Mboweni said. The SARB has raised lending rates by 4.5 percentage points since June 2006 in a bid to ease spreading price pressures, sparked by the soaring global cost of food and fuel. That has pushed debt costs sharply up, curbing consumer spending and helping to slow economic growth. (Business Day, May 29, 2008)
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2000 Foreign Math and Science Teachers Head for SA

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¶4. (U) Department of Education (DOE) Deputy Director General Firoz Patel told the National Assembly's portfolio committee on education that his department will employ 2,000 foreign math and science (M&S) teachers in the next two years. Patel said there was a critical shortage of skills in M&S teaching in SA and DOE still had to address the issue of under-qualified teachers. He said DOE already has 1,432 foreign teachers working in local schools, and has received enquiries about employment from Asia and the U.S. The program will run for three years, with the first 1,000 group of teachers arriving in October 2008. The Department of Home Affairs has allocated 4,000 permits for the anticipated teachers. In an effort to increase interest in M&S teaching, DOE has allocated R500 million ($66.6 million) in incentives for teachers. It has also established a four-year bursary fund for teacher training programs. DOE is aiming to address the issue of under-qualified teachers by
¶2013. (Pretoria News, May 28, 2008)

SAA Reaches Salary Agreement with Pilots

¶5. (U) National carrier South African Airways (SAA) announced that it has reached salary and restructuring agreements with its pilots that would facilitate greater labor stability and assist the airline with its return to sustainable profitability. The airline and the pilots union agreed to a three-year salary agreement, as well as a restructuring agreement. This follows a multi-year wage agreement reached earlier in May with trade unions representing cabin crew and ground staff. "Reaching an agreement with our pilots will assist us immensely with our plans to expand our fleet and to explore opportunities for growth. We can now as a team focus on consolidating the airline's restructuring program, as well as growing the business," said CEO Khaya Ngqula. The parties have agreed to use a local market-based formula for salary increases for 2008/9 and 2009/10. A study will be conducted to benchmark salary increases to comparable job categories in SA. SAA also said that it had suspended its Maintenance of Parity agreement and temporarily replaced it with the three year-salary agreement. (Business Report, May 20, 2008)

PetroSA Mulls Challenge to Transnet Pipeline

¶6. (U) State-owned logistics company Transnet's new R11.2 billion ($1.45 billion) fuel pipeline from the Port of Durban could get a competitor if state-owned oil and gas company PetroSA proceeds with its plans for a similar venture. PetroSA announced that it was studying the feasibility of an alternative pipeline from the new port in Coega to Gauteng. PetroSA Vice-President Joern Falbe said the study was expected to be completed by the end of 2008. "Technically it would be possible to have the pipeline up and running by 2014 - in seven years time," he said without disclosing the expected cost and capacity of the pipeline. Transnet announced earlier that its new pipeline was expected to begin pumping fuel Qearlier that its new pipeline was expected to begin pumping fuel during the third quarter of 2010. News of the possible additional pipeline came as PetroSA said that it had increased the capacity of its proposed Coega oil refinery by 60% to 400,000 barrels a day and at a cost of $11 billion. SA's six refineries can process up to 708,000 barrels a day. Expanding the planned size of the PetroSA refinery comes at a time of growing demand for fuel in the local economy, which has resulted in shortages and greater imports. Power shortages have resulted in greater demand for diesel. PetroSA said the increase in the planned size of the refinery came thanks to input from potential international partners who recognized the flexibility of Coega to supply diverse markets and mitigate risk. After evaluating all operational, logistical and environmental considerations, 400,000 barrels a day was considered to be the most suitable configuration, Falbe said. "Due to the economies of scale, the investment cost per barrel reduces by 20% and operating costs improve by 30%, boosting the original project economics substantially," he added. The proposed refinery, which PetroSA said would be the lowest-cost producer in sub-Saharan Africa, was expected to start operating by 2014, when South Africa's demand for refined oil is expected to exceed existing refining capacity by about 200,000 barrels a day. In the absence of a new refinery, SA would have had to import the shortfall, a more expensive solution because it would drain the country's foreign exchange reserves. (Business Report, May 23, 2008)

Power Tariff Smoothing Prevailing

¶7. (U) The consensus of speakers at the National Energy Regulator of SA (NERSA) May 23-27 hearings into Eskom's application for a 60% tariff increase supported a smoothed, or more gradual, five-year approach to increasing electricity prices. The tariff smoothing approach and safeguards for the poor and continued economic growth were also the consensus from the May 16 National Energy Summit. The five-year smoothing suggestion appeared to trigger an announcement by international ratings agency Moody's that it might cut Eskom's credit rating. Moody's issued a statement: "The action reflects Moody's concerns over the potential negative effects of possible less-than-expected tariff increases on Eskom's financial profile and that government support for Eskom may not be as clear and as unambiguous as reflected in Moody's current high-support assumption." Standard & Poor's previously placed Eskom on so-called negative watch for the same reasons. At the hearings, Chamber of Mines Chief Economist Roger Baxter described the government's commitment of $9 billion to Eskom as a "capital injection" and a clear sign of the government's support for the 100% government-owned entity. Another outcome of the National Energy Summit was commitment to create an electricity advisory council of government, business, labor, and community representatives to advise government and Eskom on how the utility could meet its funding requirements for about $50 billion in its five-year build program. Embattled Eskom Chairman Valli Moosa broke his controversial silence, rejecting NERSA's assertion that Eskom management had been pre-occupied with profitability at the expense of safeguarding supply security. Moosa also blamed South Africa's affluent homeowners for using energy inefficiently. (Engineering News and Business Day May 22-27, 2008)

Xenophobia Affects Mine Production

¶8. (U) Mid-tier gold-miner DRDGold reported that worker attendance at its ERPM mine near Boksburg was back to normal, after a week of erratic turnouts cut production. A company spokesperson said violent outbreaks in informal settlements that targeted foreigners "seemed to have calmed down", and production should soon be at normal levels. One-third of ERPM's workforce are citizens of neighboring countries, mainly Mozambique. DRDGold previously announced that two of its workers had been killed in the mob brutality that swept through Gauteng's squatter camps before spreading to other provinces. The National Union of Mineworkers condemned the violent attacks on foreigners, describing them as a "disgrace to our revolution". A separate article quoted a local mine worker speaking to ANC President Jacob Zuma: "The reason the Mozambicans were targeted was because bosses put them in charge over us at work. This is because every time the white man says 'Do this', the Shangaan (Mozambican) says, 'Yes baas!'" Note: Mine management has reported that Mozambicans have a reputation for talent and intelligence as team managers. (Engineering News and The
Qtalent and intelligence as team managers. (Engineering News and The Times, May 26, 2008)

Union Calls for Nationalization of Mines

¶9. (U) South Africa's largest mineworkers union, the National Union of Mineworkers (NUM) called for the nationalization of the country's mines as a way of dealing with the country's energy crisis. Speaking at the union's central committee meeting, NUM President Senzeni Zokwana said, "if the government was concerned about the high cost of coal and the high fuel costs, it should nationalize mines and turn coal-to-liquids provider Sasol into a state-owned entity. In February, the ruling ANC's Secretary-General Gwede Matashe said the country had to create more state-owned enterprises in the mining industry. He particularly highlighted the platinum industry. (Mining Weekly, May 23, 2008)

Indian Company Considers MTN Merger

¶10. (U) MTN Group has started talks with Indian mobile-operator Reliance Communications that could lead to the creation of a $66 billion emerging markets telecom group. Reliance, India's number two mobile-operator, quickly stepped into the void after bigger rival Bharti Airtel pulled out of talks with MTN. A combination of MTN (valued at $38 billion) and Reliance (valued at $28 billion), would create a top-ten global industry player. In terms of subscribers, a merged group would slot in just below Deutsche Telekom, as the seventh largest in the world. Reliance recently

bought Ugandan Anupam Global Soft, stating it would launch mobile services in Uganda by the end of 2008 and spend up to $500 million over five-years to build a telecom network there. Analysts said Reliance and MTN might swap shares, as the foreign holding in Reliance Communications was considerably lower than in Bharti Airtel, a factor that was seen as a possible roadblock for Bharti's attempted deal. Foreign ownership of Indian telecom firms is capped at 74%, and Singapore Telecommunications already owned a 30.5% share of Bharti. Media and industry analysts had speculated that Bharti was eyeing a 51% stake in MTN. MTN is seeking new markets outside Africa and the Middle East and will likely push to retain its brand and culture. Reliance and MTN said that the two groups had entered into exclusive talks about combining their businesses. A 45-day exclusivity period will be in force, during which neither can talk to any other entity. Reliance Chairman Anil Ambani, one of India's richest men, said a deal with MTN could "provide investors, customers and the people of both companies a global platform for exponential growth". "Reliance Communications is smaller than MTN, and lacks the financial muscle for a takeover, but it is not going to want to be a subsidiary, either," said a telecom analyst. The two firms were instead likely to create a new company, with MTN taking a 51% stake. (Business Report, May 28, 2008 and Engineering News, May 26, 2008)

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ICASA Rejects Bid to Force Pay-TV Providers to Pay for Public

Broadcaster's Content
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¶11. (U) The Independent Communications Authority of SA (ICASA) has rejected the South African Broadcasting Company's (SABC) bid to force pay-television providers such as MultiChoice to pay for the privilege of carrying the public broadcaster's channels. In 2007, SABC proposed that MultiChoice and new players Telkom Media, Walking on Water, and On Digital Media should pay for the content of SABC1, SABC2 and SABC3, saying the channels boosted the uptake of subscription services in the market. It pressed ICASA to enforce a "must carry, must pay" policy. The move raised speculation that SABC was seeking to boost its finances after profit for the 2006/07 financial-year fell 52%. But in draft regulations released this week, ICASA dismissed the public broadcaster's request and proposed that every operator must continue carrying its own cost. MultiChoice carries SABC1, SABC2 and SABC3 without charge. In its findings, the regulator said "must carry" obligations should not be imposed as financial support for any broadcaster. The SABC should offer its channels free of charge and deliver its signals to the subscription operators at its own cost. Any costs outside the signal delivery and carriage of the channels should be based on commercial negotiations between the parties. Under the Electronic Communications Act, subscription broadcasters must carry the public service channels to fulfill universal access obligations. During hearings last year, MultiChoice, On Digital Media, and Telkom Media
Qhearings last year, MultiChoice, On Digital Media, and Telkom Media
argued that they would be helping the SABC to meet its universal access duties by carrying the channels, because the terrestrial signal was weak in some areas. Airing the channels to pay-television consumers boosted the public broadcaster's negotiating powers with advertisers, MultiChoice added. If ICASA imposed the "must pay" obligation, MultiChoice cautioned, the costs might be passed on to consumers, who would be paying twice for channels as they already had to pay SABC television license fees. There were also concerns that the SABC might not offer channels such as SABC3, which it views as a commercial station, if ICASA did not impose the remuneration obligation. The SABC argued that subscription broadcasters were obliged to carry its public service channels, but it was not mandatory for the SABC to offer all of its content to them. ICASA's draft stated that SABC would have to make its channels available to all the players on a non-discriminatory basis. (Business Report, May 29, 2008)

Cape Town Builds Five-Star "Dry" Hotel

¶12. (U) A new five-star "dry" hotel aimed at the Middle Eastern market is being built in central Cape Town at a cost of R220 million ($29 million). Pam Golding Properties is marketing 30 of the 140 hotel rooms and suites in the Coral International Hotel. The hotel is being built in Bokaap, an area with strong historical Muslim links. Pam Golding Area Manager Basil Moraitis said construction

began at the beginning of May and should be completed by the end of ¶2009. Moraitis said one of the largest suites had been bought by a member of an Emirates royal family, Sheikh Faisal Bin Sultan Al Qasimi from the ruling family of Sharjah. Moraitis said the developers wanted to create a hotel that appealed to Middle Eastern visitors and businessmen and was being built to the "highest standards with prayer rooms". The luxury hotel will include a fitness center, meeting rooms, conference facilities and three different restaurants that will serve food according to Muslim dietary restrictions (halaal). (Business Day, May 26, 2008)

Xenophobia Impacts Provincial Tourism

¶13. (U) Tourism KwaZulu-Natal (TKZN) CEO Ndabo Khoza held a press conference in Durban on May 27 to condemn xenophobic violence and outline steps to curb the negative impact on tourism in KZN. Khoza noted that Africa is SA's most important source of foreign visitors and tourism income. He added that "in terms of spending per trip by

international tourists in 2006, visitors from Mozambique topped the list, each spending R21,000 ($2,700)." Spending by tourists from Angola ($1,660), India ($1,500), Nigeria ($1,480), and U.S. ($1,430) rounded out the top-five list. TKZN Chairman Seshi Chonco said that "after the domestic tourism market, Africa was the province's most important source of tourists." The African market accounts for 67% (6.8 million) of foreign visitors and generates as much as R4 billion ($519 million) a year in revenues. Chonco described "overnight tourists" from neighboring towns in Swaziland, Mozambique, and Lesotho, who come into SA on short shopping trips, as the bread and butter for the KZN border towns and thought the xenophobic incidents put that at risk. Khoza and Chonco hoped to send a positive message to nurture the "valuable African tourism market." (Mercury, May 28, 2008)

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